

Spring 2019



**INCOME TAX!**

Michael J. Bootsma, JD, CPA  
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Stoney Creek Hotel & Conference Center  
Johnston, Iowa

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**TAX CUTS AND JOBS ACT**

- Eliminated personal exemptions and increased taxpayer's standard deduction
  - For example, the previous standard deduction for a single taxpayer was \$6,500; the new standard deduction jumped to \$12,000 in 2018
  - For a family, the new standard deduction increased to \$24,000
- The child tax credit is increasing from \$1,000 to \$2,000 per qualifying child (under the age of 17) to help offset the loss of the personal and dependency exemptions.
  - An additional \$500 credit is available for qualifying dependents who don't qualify the taxpayer for the child tax credit.
  - As an example, a child who is 18 or older who won't qualify for the child tax credit but is still considered a dependent.




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**TAX CUTS AND JOBS ACT**

- Itemized deductions will be limited to \$10,000 in total for state income and real estate taxes, combined.
- The itemized deduction for home equity loan interest has been eliminated. However, interest from a loan used to purchase a home still is deductible with some new limitations.
- **Other eliminated deductions**
  - Alimony payments from a divorce decree signed or amended after Dec. 31, 2018
  - Moving expenses for most taxpayers
  - Tuition and fees for higher education expenses




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### TAX CUTS AND JOBS ACT

- Simpler form and lower rates




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### TAX CUTS AND JOBS ACT

- Simpler form and lower rates




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### TAX CUTS AND JOBS ACT




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### TAX CUTS AND JOBS ACT

- **Qualified Business Income Deduction**
  - Deduction of 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate.
  - **Limitations:**
    - Taxable income
    - Amount of W-2 wages paid
    - Unadjusted basis of qualified property




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### TAX CUTS AND JOBS ACT

Additional Income and Deductions to Income		13
All the components of the 2018 Taxable Income		
<b>Additional Income</b>	13a	13b
13a	13b	13c
13b	13c	13d
13c	13d	13e
13d	13e	13f
13e	13f	13g
13f	13g	13h
13g	13h	13i
13h	13i	13j
13i	13j	13k
13j	13k	13l
13k	13l	13m
13l	13m	13n
13m	13n	13o
13n	13o	13p
13o	13p	13q
13p	13q	13r
13q	13r	13s
13r	13s	13t
13s	13t	13u
13t	13u	13v
13u	13v	13w
13v	13w	13x
13w	13x	13y
13x	13y	13z
13y	13z	13aa
13z	13aa	13ab
13aa	13ab	13ac
13ab	13ac	13ad
13ac	13ad	13ae
13ad	13ae	13af
13ae	13af	13ag
13af	13ag	13ah
13ag	13ah	13ai
13ah	13ai	13aj
13ai	13aj	13ak
13aj	13ak	13al
13ak	13al	13am
13al	13am	13an
13am	13an	13ao
13an	13ao	13ap
13ao	13ap	13aq
13ap	13aq	13ar
13aq	13ar	13as
13ar	13as	13at
13as	13at	13au
13at	13au	13av
13au	13av	13aw
13av	13aw	13ax
13aw	13ax	13ay
13ax	13ay	13az
13ay	13az	13ba
13az	13ba	13bb
13ba	13bb	13bc
13bb	13bc	13bd
13bc	13bd	13be
13bd	13be	13bf
13be	13bf	13bg
13bf	13bg	13bh
13bg	13bh	13bi
13bh	13bi	13bj
13bi	13bj	13bk
13bj	13bk	13bl
13bk	13bl	13bm
13bl	13bm	13bn
13bm	13bn	13bo
13bn	13bo	13bp
13bo	13bp	13bq
13bp	13bq	13br
13bq	13br	13bs
13br	13bs	13bt
13bs	13bt	13bu
13bt	13bu	13bv
13bu	13bv	13bw
13bv	13bw	13bx
13bw	13bx	13by
13bx	13by	13bz
13by	13bz	13ca
13bz	13ca	13cb
13ca	13cb	13cc
13cb	13cc	13cd
13cc	13cd	13ce
13cd	13ce	13cf
13ce	13cf	13cg
13cf	13cg	13ch
13cg	13ch	13ci
13ch	13ci	13cj
13ci	13cj	13ck
13cj	13ck	13cl
13ck	13cl	13cm
13cl	13cm	13cn
13cm	13cn	13co
13cn	13co	13cp
13co	13cp	13cq
13cp	13cq	13cr
13cq	13cr	13cs
13cr	13cs	13ct
13ct	13cu	13cv
13cu	13cv	13cw
13cv	13cw	13cx
13cw	13cx	13cy
13cx	13cy	13cz
13cy	13cz	13da
13cz	13da	13db
13da	13db	13dc
13db	13dc	13dd
13dc	13dd	13de
13dd	13de	13df
13de	13df	13dg
13df	13dg	13dh
13dg	13dh	13di
13dh	13di	13dj
13di	13dj	13dk
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13dk	13dl	13dm
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13dn	13do	13dp
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13dq	13dr	13ds
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13eb	13ec	13ed
13ec	13ed	13ee
13ed	13ee	13ef
13ee	13ef	13eg
13ef	13eg	13eh
13eg	13eh	13ei
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13eo	13ep	13eq
13ep	13eq	13er
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13ic	13id	13ie
13id	13ie	13if
13ie	13if	13ig
13if	13ig	13ih
13ig	13ih	13ii
13ih	13ii	13ij
13ii	13ij	13ik
13ij	13ik	13il
13ik	13il	13im
13il	13im	13in
13im	13in	13io
13in	13io	13ip
13io	13ip	13iq
13ip	13iq	13ir
13iq	13ir	13is
13ir	13is	13it
13is	13it	13iu
13it	13iu	13iv
13iu	13iv	13iw
13iv	13iw	13ix
13iw	13ix	13iy
13ix	13iy	13iz
13iy	13iz	13ja
13iz	13ja	13jb
13ja	13jb	13jc
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13jc	13jd	13je
13jd	13je	13jf
13je	13jf	13jg
13jf	13jg	13jh
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13kz	13la	13lb
13la	13lb	13lc
13lb	13lc	13ld
13lc	13ld	13le
13ld	13le	13lf
13le	13lf	13lg
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13lg	13lh	13li
13lh	13li	13lj
13li	13lj	13lk
13lj	13lk	13ll
13lk	13ll	13lm
13ll	13lm	13ln
13lm	13ln	13lo
13ln	13lo	13lp
13lo	13lp	13lq
13lp	13lq	13lr
13lq	13lr	13ls
13lr	13ls	13lt
13ls	13lt	13lu
13lt	13lu	13lv
13lu	13lv	13lw
13lv	13lw	13lx
13lw	13lx	13ly
13lx	13ly	13lz
13ly	13lz	13ma
13lz	13ma	13mb
13ma	13mb	13mc
13mb	13mc	13md
13mc	13md	13me
13md	13me	13mf
13me	13mf	13mg
13mf	13mg	13mh
13mg	13mh	13mi
13mh	13mi	13mj
13mi	13mj	13mk
13mj	13mk	13ml

### S CORPS

- Peter and Charlie form the PC - S Corporation. Each is a 50% owner.
- Year 1, the S corporation suffers a loss of \$10,000. Peter and Charlie may or may not report the amount of -\$5,000 on line 17 of their individual income tax form 1040 because of loss limitation rules
- Year 2, the S corporation creates taxable income of \$10,000. Whether or not Charlie and Peter report \$5,000 of income on line 17 of the form depends on whether or not they reported the loss in year 1.
- Year 3, the S corporation creates taxable income of \$30,000 and Peter should each report \$15,000 of income on line 17 or may not receive any cash distributions.




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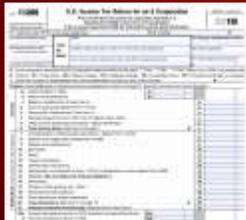
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### 1120-S




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### K-1




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### PARTNERSHIPS (OR MULTIPLE MEMBER LLC'S)

- Business Entity files Form 1065
- Partners receive a K-1 (like an S corporation)
- Partnership is a tax flow through entity like an S corporation
  - However, partners cannot be paid a salary but S corporation owners can
- Income
  - Interest and dividends go to their respective lines on the form 1040
  - Ordinary income (everything else that is taxable) should go on line 17 of the form 1040 via schedule E



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### PARTNERSHIP FORM 1065



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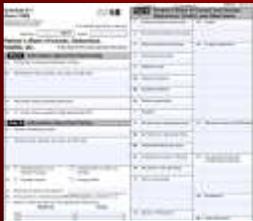
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### FORM K-1



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### SOLE PROPRIETORSHIP

- Non incorporated business entity or a single member LLC
- Owner reports income on schedule C
  - Owner is not paid a salary (or wages) for tax purposes
  - Owner may get a form 1099 MISC from customers (but not always)




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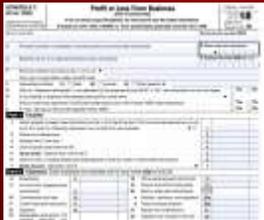
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### SCHEDULE C




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### CAPITAL GAINS AND LOSSES

- Generated by capital gain assets and reported on line 13 of the form 1040 via schedule D/schedule 1
- Common examples:
  - Sale of stock held for any period of time
  - Mutual fund pass through
  - Partnership or 1120S pass through
  - Land held for investments held for any period of time
  - Sale of business property owned longer than 1 year




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### MEDICAL EXPENSES

Category	Amount	Percentage of AGI	Amount Exceeding 10% of AGI
Medical Insurance	1000	1.67%	0
Physician Services	2000	3.33%	0
Hospital Inpatient Services	5000	8.33%	0
Outpatient Services	3000	5.00%	0
Medical Equipment	1500	2.50%	0
Transportation	500	0.83%	0
Medical Care	10000	16.67%	0
Other	5000	8.33%	0
<b>Total</b>	<b>21000</b>	<b>34.67%</b>	<b>0</b>




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### MEDICAL EXPENSES

- Generally only deductible if the amount exceeds 10% of AGI (7.5% for 2018) AND the taxpayer itemizes deductions on schedule A
  - May not be reported because
    - Taxpayer does not itemize and/or
    - Taxpayer did not have enough to deduct
- Mike Bling has AGI of \$65,000 (found on bottom of page 1 of form 1040)
  - His medical expenses would have to exceed \$6,500 before he can deduct any of his medical expenses. In addition, if this is his only itemized deduction, he might not itemize at all.




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### SOCIAL SECURITY BENEFITS

- Generally not taxable unless person has significant income from other sources
  - No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on federal income tax rules.
    - Mike Bling has \$150,000 in net rental income. He also receives \$10,000 in Social Security benefits. He may pay income tax at his marginal rate (assume 28%) on 85% of his Social Security benefit.  $\$10,000 \times .85 = \$8,500$ . This income would show on page 1 of the 1040. \$10,000 would be reported on line 20a of the 1040 and \$8,500 is would be reported on line 20b.
- Reported on form SSA 1099




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### SOCIAL SECURITY BENEFIT CALCULATION

Taxpayer's adjusted gross income from form 1040  
 + Nontaxable interest  
 +  $\frac{1}{2}$  of your Social Security benefits  
 = Taxpayer's " *combined income* "

We use combined income to determine whether or not any portion of your Social Security benefit is taxable




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### AMOUNT TAXABLE

- **If Single Filing Status** - and taxpayer's *combined income (from previous slide)* is
  - between \$25,000 and \$34,000, taxpayer may have to pay income tax on up to 50 percent of taxpayer's benefits.
  - more than \$34,000, up to 85 percent of taxpayers benefits may be taxable.
- **If Married Filing Jointly**, and spouses have a *combined income* that is
  - between \$32,000 and \$44,000, taxpayers may have to pay income tax on up to 50 percent of their benefits
  - more than \$44,000, up to 85 percent of their benefits may be taxable
- **If Married Filing Separately**, taxpayer probably will pay 85 percent of their benefits.




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### SCHOLARSHIPS AND GRANTS

- **Tax-Free If**
- 1) Candidate pursuing degree at a qualified educational institution
- 2) Amount was used to pay for tuition, fees, books or even supplies and equipment if supplies and equipment are required




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### TAXABLE

- "You must include in gross income:
  - Amounts used for incidental expenses, such as room and board, travel, and optional equipment.
  - Amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant. However, you don't need to include in gross income any amounts you receive for services that are required by the National Health Service Corps Scholarship Program, the Armed Forces Health Professions Scholarship and Financial Assistance Program, or a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college."
- <https://www.irs.gov/taxtopics/tc421>




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### PELL GRANTS

- Pell Grants (and many other scholarships) can be treated in one of two ways for tax purposes:
  1. Tax-free and subtracted from AOTC-eligible expenses. Pell Grants allocated to QTRE are excluded from taxable income, but they are also subtracted from QTRE for purposes of the AOTC and LLC, potentially reducing the credit for which students are eligible.
  2. Taxable and not subtracted from AOTC-eligible expenses. Pell Grants allocated to living expenses such as room and board are included in the student's taxable income and are not subtracted from QTRE for purposes of the AOTC and LLC, potentially increasing the credit for which students are eligible. Current law generally allows students to decide whether to treat their Pell Grants as paying for QTRE or for living expenses.
- <https://www.treasury.gov/resource-center/tax-policy/Documents/Reports/Pell-Grant-Interactions2014.pdf>




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### PAYSTUBS AND W-2

Pay Stub		Medding Engineering	
31-Dec-18			
Employee	Miss Bling		
	Current		YTD
Gross Wages	1800.00		36,346
FICA	(64.00)		(6,346)
SS	(103.00)		(3,728)
Medicare	(82.50)		(960)
State	(242.00)		(2,804)
Net Pay	1,828.50		36,346




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### TRANSCRIPT



Line	Description	Amount	Code
1	Adjusted Gross Income	12,345	
2	Exemptions	4,567	
3	Standard Deduction	6,789	
4	Charitable Deduction	1,234	
5	State and Local Tax Deduction	2,345	
6	Interest on National Debt	3,456	
7	Capital Gains	4,567	
8	Dividends	5,678	
9	Other Income	6,789	
10	Retirement Income	7,890	
11	Other Taxable Income	8,901	
12	Total Taxable Income	9,012	
13	Exemptions	10,123	
14	Standard Deduction	11,234	
15	Charitable Deduction	12,345	
16	State and Local Tax Deduction	13,456	
17	Interest on National Debt	14,567	
18	Capital Gains	15,678	
19	Dividends	16,789	
20	Other Income	17,890	
21	Retirement Income	18,901	
22	Other Taxable Income	19,012	
23	Total Taxable Income	20,123	




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### FILING STATUS

- Single
- Married filing jointly
  - Need to married by year-end
  - Can still be MFJ in year spouse dies
- Married filing separately
  - Rare for federal
  - Couple can file separately on Iowa return when filing federal return jointly
- Head of household
- Qualifying widow(er) (requires qualifying child)




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### HEAD OF HOUSEHOLD

- a. Unmarried -
  - or "considered unmarried"
- b. Maintain home -
  - paid more than half the cost of keeping up a home for the year.
- c. Dependent relative -
  - "qualifying person" lived in the home of the taxpayer for more than half the year.




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### QUALIFYING RELATIVE

- Your child, stepchild, foster child, or a descendant of any of them (for example, your grandchild). (A legally adopted child is considered your child.)
- Your brother, sister, half brother, half sister, stepbrother, or stepsister.
- Your father, mother, grandparent, or other direct ancestor, but not foster parent.
- Your stepfather or stepmother.
- A son or daughter of your brother or sister.
- A son or daughter of your half brother or half sister.
- A brother or sister of your father or mother.
- Your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

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### TWO RELATIONSHIP TESTS FOR HOH

- If not "divorced"
  - Need child, stepchild, or foster child to live with taxpayer for more than 1/2 of the year
- Need dependent relative to live with the taxpayer for more than 1/2 of the year
  - Divorced or separated
  - Exception for parents

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ADIOS!

- [mbootsma@iastate.edu](mailto:mbootsma@iastate.edu)




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